Minutes for January 29, 1959

To: Members of the Board

From: Office of the Secretary

Attached is a copy of the minutes of the Board of Governors of the Federal Reserve System on the above date.

It is not proposed to include a statement with respect to any of the entries in this set of minutes in the record of policy actions required to be maintained pursuant to section 10 of the Federal Reserve Act.

Should you have any question with regard to the minutes, it will be appreciated if you will advise the Secretary's Office. Otherwise, if you were present at the meeting, please initial in column A below to indicate that you approve the minutes. If you were not present, please initial in column B below to indicate that you have seen the minutes.

A       B

Chm. Martin  x
Gov. Szymczak  x
Gov. Mills  x
Gov. Robertson  x
Gov. Balderston  x
Gov. Shepardson  x
Minutes of the Board of Governors of the Federal Reserve System
on Thursday, January 29, 1959. The Board met in the Board Room at
10:30 a.m.

PRESENT: Mr. Martin, Chairman
Mr. Balderston, Vice Chairman
Mr. Szymczak
Mr. Mills
Mr. Robertson
Mr. Sherman, Secretary
Mr. Kenyon, Assistant Secretary
Mr. Masters, Director, Division of Examinations
Mr. Hexter, Assistant General Counsel
Mr. Hostrup, Assistant Director, Division of Examinations
Mr. Nelson, Assistant Director, Division of Examinations
Mr. Hill, Assistant to the Secretary

Discount rates. Unanimous approval was given to a telegram to
the Federal Reserve Bank of San Francisco approving the establishment
without change by that Bank on January 28, 1959, of the rates on discounts
and advances in its existing schedule.

Items circulated or distributed to the Board. The following
items, which had been circulated or distributed to the Board and copies
of which are attached to these minutes under the respective item numbers
indicated, were approved unanimously:

<table>
<thead>
<tr>
<th>Item No.</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Letter to The Sylvania Savings Bank Company, Sylvania, Ohio, approving the establishment of a branch in Lucas County. (For transmittal through the Federal Reserve Bank of Cleveland)</td>
</tr>
<tr>
<td>2</td>
<td>Letter to the Petersburg Savings and American Trust Company, Petersburg, Virginia, approving the establishment of an in-town branch. (For transmittal through the Federal Reserve Bank of Richmond)</td>
</tr>
</tbody>
</table>
Letter to the Bank of the Commonwealth, Detroit, Michigan, extending the time within which it may establish a branch at 300-316 W. Fort Street. (For transmittal through the Federal Reserve Bank of Chicago)

Letter to the Citizens Commercial & Savings Bank, Flint, Michigan, extending the time within which it may establish a branch at 925 South Saginaw Street. (For transmittal through the Federal Reserve Bank of Chicago)

Letter to the Federal Deposit Insurance Corporation regarding the application of Carroll County Trust Company of Carrollton, Missouri, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

Letter to the California Bank, Los Angeles, California, approving the establishment of a branch in El Segundo. (For transmittal through the Federal Reserve Bank of San Francisco)

Telegram to the Federal Reserve Agent at St. Louis authorizing the issuance of a limited voting permit to Petroleum King, Inc., Evansville, Indiana, for the purpose of voting its shares of the Newburgh State Bank, Newburgh, Indiana.

Letter to Senator Fulbright (Item No. 8). Reference was made to the discussion at yesterday's meeting regarding the reply to be sent to Chairman Fulbright of the Senate Banking and Currency Committee concerning the letter he had received from Chairman McClellan of the Senate Permanent Subcommittee on Investigations with regard to an investigation into alleged leaks of certain Board decisions prior to public announcement.

After discussion of two changes of a technical nature that had been suggested following tentative approval of the reply yesterday, the letter was approved unanimously for transmittal today in the form
attached as Item No. 8, with the understanding that a copy would be
sent to each Reserve Bank President for his confidential information
pursuant to the understanding at an informal meeting of the Board and
the Presidents following the meeting of the Federal Open Market
Committee on January 27, 1959.

The meeting then adjourned.
Board of Directors,  
The Sylvania Savings Bank Company,  
Sylvania, Ohio.  

Gentlemen:  

Pursuant to your request submitted through the Federal Reserve Bank of Cleveland, the Board of Governors of the Federal Reserve System approves the establishment by The Sylvania Savings Bank Company of a drive-in branch in the vicinity of the intersection of North Reynolds Road and Dorr Street, Adams Township, Lucas County, Ohio, provided the branch is established within nine months from the date of this letter, and approval of the State authorities is effective as of the date the branch is established.  

Very truly yours,  

(Signed) Kenneth A. Kenyon  
Kenneth A. Kenyon,  
Assistant Secretary.
Board of Directors,
Petersburg Savings and American Trust Company,
Petersburg, Virginia.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Richmond, the Board of Governors approves the establishment of a branch by the Petersburg Savings and American Trust Company in the Gray Drug Store Shopping Area between South Sycamore and Wakefield Streets, Petersburg, Virginia, provided the branch is established within one year from the date of this letter and approval of the State authorities is effective as of the date the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Bank of the Commonwealth,
Detroit, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System extends the time within which Bank of the Commonwealth may establish a branch at 300-316 W. Fort Street, Detroit, Michigan, to August 8, 1959, under the authorization contained in the Board's letter dated September 4, 1958.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.
Board of Directors,
Citizens Commercial & Savings Bank,
Flint, Michigan.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of Chicago, the Board of Governors of the Federal Reserve System extends until August 3, 1959, the time within which Citizens Commercial & Savings Bank may establish a branch at 925 South Saginaw Street, Flint, Michigan.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon, Assistant Secretary.
The Honorable Jesse P. Wolcott, Chairman,  
Federal Deposit Insurance Corporation,  
Washington 25, D. C.  

Dear Mr. Wolcott:

Reference is made to your letter of January 19, 1959, concerning the application of Carroll County Trust Company of Carrollton, Missouri, Carrollton, Missouri, for continuance of deposit insurance after withdrawal from membership in the Federal Reserve System.

No corrective programs which the Board of Governors believes should be incorporated as conditions to the continuance of deposit insurance have been urged upon or agreed to by the bank.

Very truly yours,

(Signed) Kenneth A. Kenyon  

Kenneth A. Kenyon,  
Assistant Secretary.

Board of Directors,
California Bank,
Los Angeles, California.

Gentlemen:

Pursuant to your request submitted through the Federal Reserve Bank of San Francisco, the Board of Governors approves the establishment of a branch in the vicinity of the intersection of Sepulveda Boulevard and Imperial Highway, El Segundo, California. This approval is given provided the branch is established within one year from the date of this letter and that formal approval of State authorities is effective at the time the branch is established.

Very truly yours,

(Signed) Kenneth A. Kenyon

Kenneth A. Kenyon,
Assistant Secretary.

McBRIDE - ST. LOUIS

KECEA

A. Petroleum King, Inc., Evansville, Indiana.
B. Newburgh State Bank, Newburgh, Indiana.
C. None.
D. At any time prior to April 1, 1959, at the annual meeting of shareholders of such bank or any adjournments thereof, (1) to elect directors, and act thereat upon such matters of a routine nature as are ordinarily acted upon at the annual meetings of such bank; and (2) to increase the capital stock of such bank, provided that all actions taken in connection therewith shall be satisfactory to the Federal Reserve Bank of St. Louis.

(Signed) Kenneth A. Kenyon

KENYON

Definition of KECEA:

The Board authorizes the issuance of a limited voting permit, under the provisions of section 5144 of the Revised Statutes of the United States, to the holding company affiliate named below after the letter "A", entitling such organization to vote the stock which it owns or controls of the bank(s) named below after the letter "B", subject to the condition(s) stated below after the letter "C". The permit authorized hereunder is limited to the period of time and the purposes stated after the letter "D". Please proceed in accordance with the instructions contained in the Board's letter of March 10, 1947, (S-964).
Dear Mr. Chairman:

This is with further reference to your letter of December 23, 1958, enclosing a letter you received from Senator John L. McClellan, Chairman of the Senate Permanent Subcommittee on Investigations.

Senator McClellan's letter stated that his Subcommittee had conducted a preliminary inquiry with the view to determining the validity of allegations that there were leakages of decisions of this Board prior to public announcement. His letter reviewed the results of the Subcommittee's inquiry and stated that the "Subcommittee has no information concerning any specific leak other than the actions and reactions of the stock market during the hours immediately preceding the announcement of the Board's decision." You requested that we analyze the statements made in the letter and give a detailed reply.

Senator McClellan's letter refers to three kinds of actions by this Board: (1) changes in discount rates of Federal Reserve Banks, (2) changes in reserve requirements, and (3) changes in margin requirements on securities transactions. It seems appropriate, therefore, to consider the nature of these different kinds of action.
The Federal Reserve Act, as enacted in 1913 and amended from time to time thereafter, provides, as you know, for a decentralized system of 12 Federal Reserve Banks and a Board in Washington which, in the words of the Committee Report (p. 16) of the House Banking and Currency Committee on the original Federal Reserve Act, would "overlook and direct the general functions" of the 12 Federal Reserve Banks and would see that they "pursue a banking policy which shall be uniform and harmonious for the country as a whole". In accordance with that purpose, section 14(d) of the Federal Reserve Act, as amended by the Banking Act of 1935, provides that each Federal Reserve Bank shall have power:

"(d) To establish from time to time, subject to review and determination of the Board of Governors of the Federal Reserve System, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business; but each such bank shall establish such rates every fourteen days, or oftener if deemed necessary by the Board; . . . ."

The Attorney General has held (32 Op. A.G. 81) that under this provision the Board may "determine what rates of discount should be charged, from time to time by a Federal reserve bank, and . . . require such rates to be put into effect by such bank." At the same time the Attorney General recognized the decentralized nature of the Federal Reserve System, stating:

"The scheme of the entire act is to have Federal reserve banks in different parts of the country, so that their operations may be accommodated to the business needs of each section, and to vest final power in the Federal Reserve Board, so as to insure a conduct of business by each bank which will not be detrimental to the carrying out of the entire plan."
To assure that the operations of the Federal Reserve System will be "accommodated to the business needs of each section" and also be "uniform and harmonious for the country as a whole", it is essential that both the Board and the Reserve Banks have the benefit at all times of the best economic and business information that can be obtained. In order that the actions of the System may be more readily understood, and more promptly and thoroughly effective, it is also essential that the general public be as well informed as possible regarding the System and its purposes, and also regarding current economic and business conditions. To aid in public understanding of the operations and objectives of the System, those operations and objectives are discussed and explained in various publications and statements issued by the System from time to time. These include the weekly statement, published pursuant to section 11(a) of the Federal Reserve Act, which shows "the condition of each Federal reserve bank" and "full information regarding . . . the amount, nature and maturities of the paper and other investments owned or held by Federal reserve banks." To serve the necessary purposes of economic intelligence, the System constantly gathers and studies a great amount of statistical and other information, and to the fullest extent practicable it also makes such information available to the general public.

Since this information forms the basis for System decisions, it is not surprising that there may be "guesses" or "rumors" of System
action whenever the economic situation itself seems to suggest such action. It is inevitable that financial writers and other persons interested in financial markets may attempt to anticipate possible Board actions, just as they try to "predict" possible actions by the courts, the Congress, the executive departments, and various administrative agencies. Hardly a day passes that one writer or another does not suggest that some action by the Board is imminent. It is reasonable to expect that such "predictions" will sometimes happen to coincide with System actions.

In order to achieve the Federal Reserve Act's dual objectives of decentralization and coordination, it is essential that there be frequent exchanges of views between the Board in Washington and the 12 Federal Reserve Banks in the various parts of the country. This is particularly true with respect to the fixing of discount rates, for which the Federal Reserve Banks have important, although not final, statutory responsibility. It is also true in substantial measure with respect to changes in reserve requirements pursuant to section 19 of the Federal Reserve Act; these changes are the statutory responsibility of the Board alone, but they can have important effects on other monetary instruments, such as the discount functions of the Reserve Banks, and should be suitably coordinated. Changes in margin requirements, which are also the statutory responsibility of the Board alone under section 7 of the Securities Exchange Act of 1934, have somewhat less interaction with the other monetary instruments and hence require less exchange of views.
As one means of exchanging views and aiding in necessary coordination, the practice has developed over the years of discussing these matters, particularly possible changes in the discount rate, informally at meetings of the Federal Open Market Committee, established by section 12A of the Federal Reserve Act, which meets periodically in Washington, usually at three-week intervals. At these meetings there are present the seven members of the Board, the twelve Presidents of the Federal Reserve Banks, and about twenty-five other trusted officials of the Board or the Federal Reserve Banks. The Board and the Reserve Banks have strict rules, described below, against improper use or disclosure of confidential System information. Views regarding economic conditions and policies are exchanged informally on a broad basis at these meetings, and the Board finds it particularly valuable to obtain such information. The Federal Open Market Committee has legal authority to act only on open market policies; there is clear recognition by everyone present that this is the case and that the only purpose of the broader discussion is to exchange views, and particularly to give the Board the benefit of current thinking and current developments in the various parts of the country.

The discussions described in the preceding paragraph aid substantially in the accomplishment of the Board's task of coordinating and harmonizing System policy in the public interest, but the actual decision making process on the three subjects mentioned in Senator McClellan's letter is separate and apart from those discussions. A change in discount rates is, in practice, initiated by the Board of Directors of a Federal Reserve Bank, which is required by section 12(d)
of the Federal Reserve Act quoted above to initiate a rate action, either to retain the Bank’s existing rate or set a new one, at least every fourteen days. However, it is the Board of Governors in Washington which in law and in fact makes the decision whether to accept, reject, defer, or modify the rate initiated by the Directors of the Reserve Bank. The Board determines not only whether any change will be made and what it will be, but also the especially important question of the time when any such action will be taken. Even if the discussion at a meeting of the Federal Open Market Committee reflected a complete unanimity of view -- which would, in itself, probably flow from economic conditions that would result in similar expectations by other analysts of the subject regarding System action -- the final decision, including the exact timing of the action, would be made only by the Board itself. Only the members of the Board and the few members of the Board’s staff having duties essential to the implementation of the action would know of this action and its timing before it was made public.

While the Board might discuss the matter of a discount rate change at several different meetings of the Board, the actual decision is made within minutes or at most within a very few hours of the public announcement. This deferring of the actual decision is not a mere formality; it represents a deliberate recanvassing of the situation, and no one can be certain whether or when such a decision
will be made, or what it will be, until it actually has been made by the Board.

Since Senator McClellan's letter refers to memorandums from the Board's staff regarding margin requirements, it may be mentioned that from time to time the Board's staff prepares memorandums regarding conditions in the securities markets that would have a bearing on margin requirements. These memorandums are largely factual and a part of the essential, continuing process of gathering and analyzing information for the benefit of the Board; they usually do not contain recommendations for changes in margin requirements. Various aspects of margin requirements, including the information contained in such memorandums, are discussed at Board meetings; but if such a review were listed on the agenda for a meeting, which agenda is usually prepared late in the day preceding the meeting and is treated in confidence, there would be no indication of whether a discussion of the subject was to point up current information or was a prelude to a change in the requirements. In any event, a change in the requirements would not be made merely on the basis of such a memorandum, but would be the result of conclusions reached by the Board as a part of its continuing study of all relevant aspects of the matter. As in the case of a change in the discount rate or in reserve requirements, the actual decision on margin requirements is made only by the Board itself, and the Board reassesses the situation from time to time before making the decision. With respect to all three of the functions, no one can
know whether or when a decision will be made, or what it will be, until the Board itself has decided. Only the members of the Board and a very few members of its staff would know of the action or timing before its announcement, and a minimum of time would elapse between the decision and the announcement.

The excerpt from Senator McClellan's letter quoted in the second paragraph of this letter refers to actions and reactions of the stock market during the hours immediately preceding the announcement of the Board's decision. Actions and reactions of securities markets, especially over short periods of time, are highly diverse and can result from many different causes. Due to the wide variety and great volatility of stocks, this is particularly true of the markets for stocks. We do not know of any instance in which behavior of the stock market in the hours preceding announcement of a Board decision was any more unusual than it might easily have been in the absence of any such decision.

The Board and each Federal Reserve Bank have issued instructions to insure that there be adequate safeguards in the public interest against any possibility of misuse of confidential Federal Reserve information. Use by an officer or an employee of confidential information for personal profit or for any other improper purpose, either directly or indirectly through some other individual, would result in immediate dismissal or other appropriate disciplinary
The Honorable J. W. Fulbright

action. The Board's Rules of Organization in section 8(a) forbid all
disclosure of any unpublished information of the Board except as proper
between System officials for the performance of official duties or as
otherwise authorized by the Board. For many years it has been the
uniform understanding as stated in the enclosed copy of the Board's
letter of March 24, 1948, that officers and employees of a Federal Re-
serve Bank shall refrain from being placed in any position which might
embarrass the Reserve Bank in the conduct of any of its operations or
result in questions being raised as to the independence of their judg-
ment or their objectivity in the discharge of their official re-
sponsibilities or their ability to perform satisfactorily all of the
duties of their positions. Enclosed is a summary of rules or under-
standings in effect at the Federal Reserve Banks relating to confidential
affairs of those Banks. Also enclosed are copies of statements directed
to each member of the staff of the Board of Governors at the time of
employment and annually thereafter regarding the confidential character
of the Board's affairs and financial transactions and outside business
activities.

We appreciate the opportunity to comment on this subject
and I hope you will let me know if there is any aspect of the matter
on which you would like to have further information.

Sincerely yours,

Wm. McC. Martin, Jr.

Enclosures